

2024/25 BUDGET PROPOSALS FOR SERVICES WITHIN THE REMIT OF HEALTH & SOCIAL CARE SELECT COMMITTEE

Committee name	Health and Social Care Select Committee
Officer reporting	Andy Goodwin / Jon Smith, Finance
Papers with report	None
Ward	N/A

REASON FOR ITEM

1. To comply with the Budget and Policy Framework procedure rules as part of the agreed consultation process for the General Fund and Housing Revenue Account budgets, alongside the Council's Capital Programme, this report sets out the draft revenue budget and Capital Programme for the services within the remit of the Health & Social Care Select Committee. Following consideration by Cabinet on 14 December 2023, these proposals are now under consultation, and the relevant proposals being discussed at the January cycle of the Select Committees.
2. Cabinet will next consider the budget proposals on 15 February 2024, and the report will include comments received from Select Committees. At the meeting on 15 February 2024 Cabinet will make recommendations to full Council regarding the budget and Council Tax levels for 2024/25. Subsequently, Council will then meet to agree the budgets and Council Tax for 2024/25 on 22 February 2024.
3. The Committee needs to consider the budget proposals as they relate to the relevant service areas within the Health & Social Care Cabinet Portfolio, but within the corporate context and the constraints applying as a result of the aggregate financial position of the authority.

OPTIONS AVAILABLE TO THE COMMITTEE

4. It is recommended that the Committee notes the budget projections contained in the report and comments as appropriate on the combined budget proposals affecting the relevant service areas within the Health & Social Care Cabinet Portfolio, within the context of the corporate budgetary position.

General Fund Budget

Budget Strategy

5. Budget proposals for 2024/25 have been prepared in the context of a wider strategy addressing the five-year MTFP period through which service expenditure is to be managed within available resources in the context of a challenging economic environment both in terms of an exceptional inflationary pressures, the impact of the cost-of-living crisis and the continuing legacy of COVID-19. To balance the budget, the Council has a number of mechanisms at its disposal to deliver this including a combination of delivering efficiency

savings, increases in the Council Tax, and Fees and Charges, whilst setting a strategy that increases reserves above those forecast within the 2023/24 position.

6. This budget strategy is based upon the principle of sound financial management set against the backdrop of these challenging economic conditions, with the latest monitoring position for the 2023/24 financial year reporting a net underspend of a minor £2k which will leave uncommitted General Balances at £26,848k entering the 2024/25 financial year.
7. However, the 2023/24 position reflects the use of Earmarked Reserves to fund £3,622k of exceptional inflationary pressures on service budgets including the 2023/24 pay award. Furthermore, the Council is drawing down £1,785k from reserves to fund local priorities, £1,535k to fund legacy impacts against taxation income driven by the pandemic and £692k of other costs. With windfall income from the West London Waste Authority of £1,500k offsetting these drawdowns, the net impact is a £6,134k use of reserves, leaving a closing balance of £13,926k against the Council's Earmarked Reserves.
8. The Month 7 monitoring position for the services within this select committee present a net variance of £1,008k favourable as presented in the table below:

Table 1: Service Operating Budgets

Cabinet Member Portfolio		Approved Budget	Forecast Outturn	Variance (As at Month 7)	Variance (As at Month 6)	Movement from Month 6
		£'000	£'000	£'000	£'000	£'000
Health & Social Care	Expenditure	138,379	138,195	(184)	(239)	55
	Income	(40,508)	(41,332)	(824)	(833)	9
	Subtotal	97,871	96,863	(1,008)	(1,072)	64
Services within the remit of other committees	Expenditure	353,619	355,601	1,982	875	1,107
	Income	(190,723)	(191,699)	(976)	195	(1,171)
	Subtotal	162,896	163,902	1,006	1,070	(64)
Total Service Operating Budgets		260,767	260,765	(2)	(2)	0

9. With the following narrative setting out the variances and movement from Month 6 on an exception basis:
 - a. **Health & Social Care** – an underspend of £1,008k is reported for this portfolio, with staffing underspends after Social Care activities being driven by recruitment difficulties for the sector impacting both at a local level and nationally. The reported overachievement of income is spread across services within the remit of this portfolio with no material variances, with the largest being additional grant income. The movement at Month 7 is driven by a number of minor updates, the most material of which relates to an increase in the forecast spend on Adult Social Care Placements offset by a number of smaller forecast updates spread across the remaining services within the Health & Social Care portfolio.

Within this portfolio, Adult Social Care Placements is the only area that falls within the Demand-Led Growth section of the Council’s budget strategy, with the Month 7 refresh of the impact of demographics and inflation forecasting an emerging pressure being driven by both demographic demand and price pressures, with these pressures forecast to be funded in-year by a further release of Balance Sheet provisions.

10. Of the £22,762k savings within the 2023/24 budget, 75% are banked or on track for delivery in full, with potential risks arising on 1% (£242k), relating to timing issues on practical implementation of two projects, which are ultimately expected to be resolved. Further information on this position is set out in the month 7 budget monitoring report also presented to Cabinet on this agenda, but it is expected that all 2023/24 savings will ultimately be banked in full or replaced with alternative measures in the event of any ongoing shortfall.
11. The position on the savings included in the 2023/24 budget within the remit of this Select Committee is as follows:

Table 2: Savings Tracker

Cabinet Member Portfolio	Blue Banked £'000	Green Delivery in progress £'000	Amber I Early stages of delivery £'000	Amber II Potential problems in delivery £'000	Red Serious problems in delivery £'000	Total £'000
Cabinet Member for Health and Social Care	(830)	(1,565)	0	0	0	(2,395)
Services within the remit of other committees	(6,154)	(7,981)	(632)	(2,410)	(242)	(17,417)
Cross-Cutting	(500)	0	(500)	(1,950)	0	(2,950)
Total 2022/23 Savings Programme	(7,484) 33.0%	(9,545) 42.0%	(1,132) 5.0%	(4,360) 19.0%	(242) 1.0%	(22,762) 100.0%

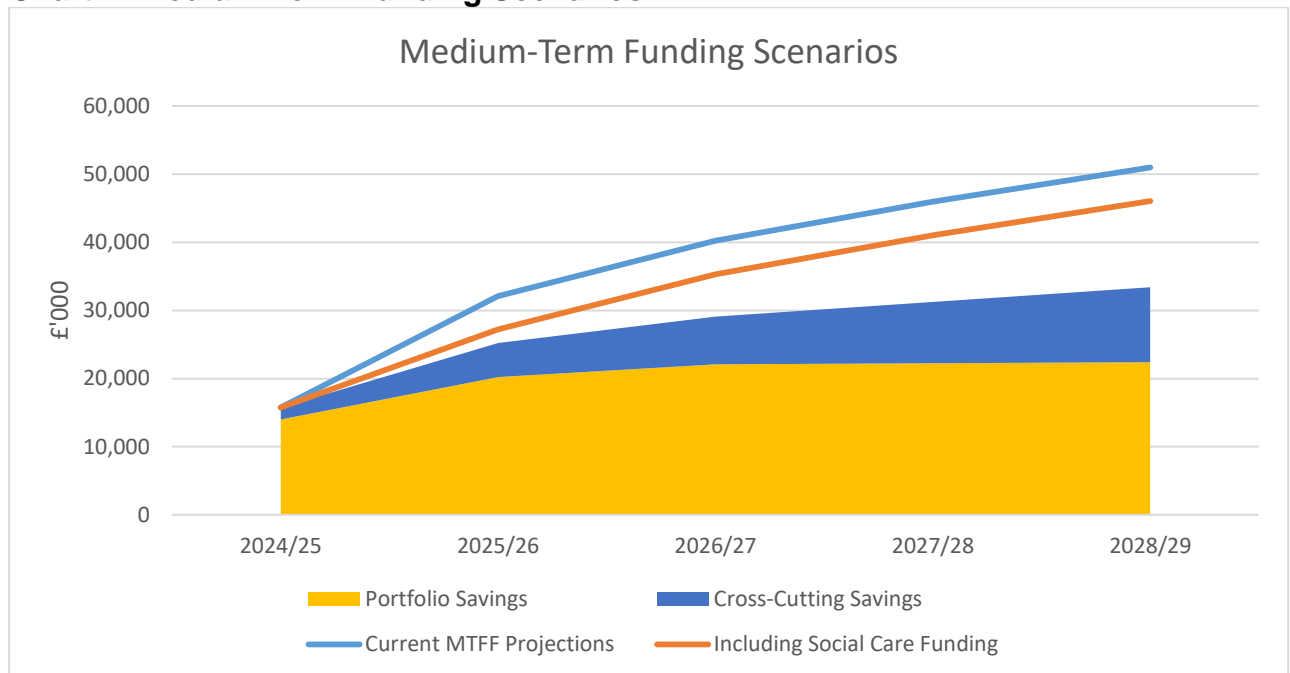
12. Based on 2.99% per annum increases in the core Council Tax and 2% per annum increases in the Social Care Precept for 2024/25, reducing to 3.8% overall increase in 2025/26 and 2.8% thereafter, funding available to support service expenditure is projected to grow by £35,209k to £298,487k between 2024/25 and 2028/29. A combination of exceptional inflationary pressures particularly in the earlier years of the budget strategy and demand-led pressures (including the legacy impacts of the COVID-19 pandemic), together with capital investment plans is projected to generate a £52,788k uplift in service expenditure across the five-year term. In order to address this differential, to date, a savings programme of £33,411k has been developed, leaving a residual budget gap of £17,579k across the five-year MTF period, with £15,752k of savings being proposed for 2024/25 increasing throughout the later years of the MTF period.

Table 3: Budget Strategy

	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000	2026/27 £'000	2027/28 £'000
Total Resources	263,278	280,712	280,462	287,245	292,253	298,487
Total Service Expenditure	263,278	280,712	287,351	298,386	306,971	316,066
Cumulative Budget Gap	0	0	(6,889)	(11,141)	(14,718)	(17,579)
<u>Of which, Service Expenditure in the remit of this committee:</u>						
Health & Social Care	114,084	125,627	130,097	135,509	140,986	146,659
Services within the remit of other committees	149,194	155,085	157,254	162,877	165,985	169,407
Total	263,278	280,712	287,351	298,386	306,971	316,066

13. As is the case for the vast majority of local authorities, the Council has experienced exceptional economic factors that are driving a material inflationary requirement, which is having a significant impact on the cost of providing services to residents, with Government funding no longer keeping pace with the increased expenditure the Council is facing. The generally accepted measure of inflation, the Consumer Price Index (CPI) continues to track above the Bank of England target rate of 2% and peaked at 11.1% in October 2022 before falling to 4.6% in the latest published data for October 2023. This high inflation environment has yielded a forecast inflationary requirement of £16,659k in 2024/25, rising to £48,176k by 2028/29.
14. This compares to a forecast of £10,906k for 2024/25 when the Council set out the previous iteration of the budget strategy in February 2023, with this latest refresh presenting a 53% increase from these projections. Inflation, together with further increase in demand-led growth and corporate items has generated the need for the continuing development of savings programmes. It is expected that this will continue to be a key requirement within our budget strategy in the years ahead.
15. The Autumn Statement announced in parliament on 22 November 2023 implied spending targets for unprotected Government departments from 2025/26 onwards will result in real terms spending reductions, with the OBR estimating spending on unprotected departments would fall by 2.3% in real terms from 2025/26, with this number forecast to increase to 4.1% per year, should the government follow through on its ambition to increase defence spending to 2.5% of GDP and return overseas development assistance to its 0.7% of gross national income target. This therefore might imply that the best-case scenario would see cash flat settlements from 2025/26 onwards.

Chart 1: Medium Term Funding Scenarios



16. As can be seen from the analysis above, the savings programme outlined in this budget strategy would only be sufficient to contain service expenditure within the resource envelope in a scenario where the £4.9m funding allocated by the Government in core Adult Social Care spending is retained in 2025/26 and beyond. However, the current savings programme reflects specifically identified actions at this time and we expect to develop and increase the programme further over the life of the MTFF. It should be recognised that in the absence of the retention of the aforementioned Adult Social Care Funding and increased savings, a requirement for a 30% uplift in core government grant support would be necessary in order to balance later years budgets.

17. The continuation of a second year of adverse economic conditions and the stubbornly high inflationary pressures represents the main cause of the current cost-of-living pressures, with the impact from increasing costs and declining revenues having negative impacts on local residents and businesses, with the Council in turn exposed to these forces and facing similar challenges in service delivery, albeit on a larger scale and in the context of a range of statutory responsibilities. The impact of this is particularly evident in the Council's homelessness prevention service, which is experiencing a sustained period of high demand, with the Council needing to materially increase the level of budgetary provision in this area. Furthermore, COVID-19 legacy issues continue to impact on Council services and finances, with pandemic related pressures believed to be a strong driver for the ongoing financial pressures within Adult Social Care.

18. Notwithstanding the additional challenges presented by adverse economic conditions and the legacy impacts from the pandemic, this budget strategy does not rely upon use of General Balances to support service expenditure and aims to increase net reserves over the five-year MTFF period to build the Council's financial resilience going forward, with this strategy proposing an increase in reserves of £7,500k by 2028/29 if no unforeseen economic shocks are sustained. A review of the range of general risks affecting the Council and the anticipated release of significant sums from provisions and EMRs in 2023/24 indicates that the recommended level of uncommitted reserves (General Balances) should be between

£22,000k and £41,000k, meaning that £4,848k over and above earmarked reserves remains available to the Council to deploy, should it be required.

19. In addition to General Balances, the Council holds Earmarked Reserves to manage specific risks, projects and cyclical expenditure commitments. At 31 March 2024, these are projected to total £13,926k, with £3,048k being the remaining balance of identified funding to meet exceptional inflationary pressures. This strategy includes no further release from earmarked reserves to fund ongoing service expenditure.
20. Savings proposals totalling £33,411k have been developed towards mitigating the emerging expenditure pressures as funding levels are projected to grow at a slower rate than demand for Council Services, with a residual £17,579k budget gap to be mitigated over the period from 2024/25 to 2028/29. As in previous years, savings proposals for the forthcoming financial year are specific in nature, with medium-term plans structured around wider strategic approaches to transformation of local services. Proposals have been developed within the themes of Service Transformation, Effective Procurement, Digital Strategy, Workforce, Managing Demand and Income Generation & Commercialisation and Zero Based Reviews, with an overview of specific measures set out within this report.
21. Following on from the Autumn Statement announcement in November 2023 and whilst the Local Authority settlement is still awaited, it is considered highly likely that Government Grants and Business Rates income will fail to match prevailing levels of inflation currently being experienced in the medium term and that demand levels for Adult and Children's Social Care provision have shown and will continue to show unrelenting growth. It has therefore proved necessary for the Council to continue the approach of proposing increases in Fees & Charges to keep pace with inflation and in part mitigate the shortfall in Government funding.
22. This draft budget outlines £346,869k of proposed capital expenditure – including substantial investment in local infrastructure, a new leisure centre and delivery of significant additional SEND capacity in the borough's schools – of which £74,076k is to be financed through borrowing. Taken together with historic capital spending, this investment will result in the Capital Financing Requirement peaking at £318,748k in 2025/26 and declining thereafter. Of this peak borrowing requirement, £271,057k is expected to necessitate external borrowing, with £47,691k being financed through General Fund reserves and working capital.
23. The following sections of this report and Appendix A provide further commentary and analysis to support the General Fund budget strategy, before returning to a summary of the Schools Budget position and Housing Revenue Account in turn.

Risk Management

24. In developing a strategy to deliver services within a constrained resource envelope, it is necessary to reflect upon both risk and opportunity arising from the Council's current financial standing, with this assessment in essence representing an informed view of the organisation's financial resilience. The following paragraphs provide an update on the constituent elements of this assessment:

- a. **General Fund Reserve-levels:** a key indicator of financial resilience, the Council is projected to retain £45.2m at 31 March 2023 between general and earmarked reserves at the time of budget setting in February 2023, with the final outturn for the year seeing this sum increase to £46.9m. Latest projections for the 2023/24 year would see this sum fall to £40.5m by 31 March 2024, which remains broadly in line with budget strategy assumptions as one-off or windfall gains are being deployed to meet additional cost pressures arising from the ongoing high inflation environment while also reflecting that the Council has historic commitments against specific earmarked reserves. Of this sum £26.9m is projected to be held in unallocated General Balance, with £13.9m earmarked for specific purposes.

The Corporate Director of Finance is required to set out a recommended range for unallocated reserves, which was set between £22m and £41m for the 2023/24 financial year. Current reserve levels are therefore towards the lower end of the acceptable range for an authority such as Hillingdon, and as outlined in the Section 25 Statement in the Budget Strategy report presented to Cabinet in February 2023, this budget now proposes increasing reserves by £7.5m by 2028/29. The recommended range for General Balances is predicated on the Council being able to deliver balanced budgets and makes no provision for substantial deployment of reserves over the MTF period.

While reserve-levels remain within the recommended range, it is notable that the Council's absolute levels of reserve are an outlier in London – being ranked 31 from 33 authorities at 31 March 2022 (the last date for which comparable data is available). This will impact how the Council develops its budget strategy over the coming years with a focus on building resilience through £7.5m budgeted contributions to reserves over the five year period of the MTF.

- b. **Dedicated Schools Grant Deficit:** the cumulative deficit arising from sustained underfunding of SEND provision by the Department for Education stood at £21.9m at 31 March 2023, equivalent to 47% of the Council's total General Fund Reserves. There is currently a time-limited statutory override in place until 31 March 2025 which ensures that this deficit does not impact upon general reserves, and the Council's General Fund budget strategy is predicated on the further continuation of this override. As the Council continues to invest significant funds and capacity to bring this ringfenced account into balance over the medium term, the DSG deficit will continue to represent an additional call on financial capacity.
- c. **Capital Financing Requirement:** this reflects the Council's underlying need to borrow and the element of historic investment that has not yet but will ultimately be funded from Council Tax receipts. At the time of the last budget setting in February 2023 this was projected to total £259.7m at 31 March 2023, with the final outturn position falling marginally to £257.6m as a result of slippage in planned capital spending. At 21.5% of the Council's £1,196m asset base, this does not represent an excessive level of borrowing for an authority such as Hillingdon and plans are in place to fully meet this obligation over the useful economic lives of the associated assets.

The Council retains no material interest in investment property or other commercial interests on its balance sheet, with assets held primarily for delivery of services to local residents. As a result, a material write-down of asset values is not considered a

material risk for Hillingdon and economic conditions would not be in a position to require accelerated funding of the Capital Financing Requirement.

Shareholding in the Council's housing development company currently totals £4.9m, with facility for further lending to finance specific schemes on a case-by-case basis. Given the scale of projects delivered by the company and the Council's status as sole shareholder and lender, the risk of this operation adversely affecting the Council's broader financial resilience is limited.

25. On the basis of these core balance sheet measures, Hillingdon maintains significant capacity for capital investment with limited exposure to commercial risk, albeit with a lower level of reserves cover than other authorities which emphasises the requirements for a greater focus on reliable delivery of balanced budgets. While it is likely that almost all local authorities are facing a budgetary challenge of a similar nature to Hillingdon, it is notable some of those authorities may have higher debt and associated risk with the recent increases in interest rates. In this context the current MTF strategy depends on the achievement of asset sales with circa £75 million assumed over the next five years and these providing the financing towards the Council's transformation programme and DSG Safety Valve agreement requirements.
26. Based on the Council's assessment of its financial resilience, the budget strategy presented in this report has taken a prudent approach to the review of inflation, with the Council's core inflation assumption being that CPI continues to track at circa 7% per annum for 2023/24 and 2024/25, before falling to 4% for 2025/26 before returning to the Bank of England target rate of 2% for the remainder of the five-year strategy. The approach assumes that much of the Council's core contracted expenditure ultimately presents for an increase of this magnitude, albeit with an expectation that the timing of uplifts will present on a staggered basis. On a similar approach, Social Care continues to generate a significant inflation requirement against an expenditure budget exceeding £110m. Energy and fuel inflation forecasts continue to track significantly above inflation, predominantly linked to the impact from the war in Ukraine with a further risk from the current Israeli-Palestinian Conflict.
27. Following ten years of Hillingdon freezing Council Tax before applying more modest increases in recent times, Hillingdon has positioned itself as a low tax authority, however, as the Government assume that Councils will raise Council Tax in line with the referendum threshold, the Council's core spending power is tracking behind where Government models would assess it to be. Indeed, it should be noted that as a result of the ten-year freeze, even after an increase in 2023/24, Council Tax levels in Hillingdon are amongst the lowest in London. This means that the robustness of estimates is critical as the Council needs to ensure that Service Operating Budgets are sufficient to fund services going forward without the reliance on reserves.
28. The Council continues to take a robust approach to the recommended Savings Programme, which is focussed on making improvements and efficiencies in service delivery rather than service reductions, with assessed proposals being included in the Council's budget strategy, and the majority of savings targets assigned to specific service departments, This allows the Council to have greater certainty in the delivery of the saving programme, albeit with an inherent level of risk due to continuing adverse economic conditions and the increasingly complex nature of the savings initiatives being undertaken.

29. The combination of this substantial savings programme and proposed uplifts in Fees & Charges are projected to secure £15.7m benefit in the 2024/25 financial year, indicating the scale of measures required to manage the increased savings requirement for the forthcoming financial year.
30. Based on the approach adopted to generating the Council's budget strategy, the procedures it follows, and the assumptions included in this report, the budget strategy is deemed to be based on sound forecasting and realistic assumptions that enable the Cabinet to present this position to the public, local businesses and Council members for consideration.
31. As part of the Cabinet's final budget proposals to Council presented in February 2024, the Corporate Director of Finance will provide assurances around robustness of estimates and adequacy of reserves as part of the statutory framework for local authority budget setting. These assurances will be framed with reference to principles and standards included within CIPFA's Financial Management Code.

Budget Proposals for the Health & Social Care Select Committee

32. Service expenditure will grow due to inflationary pressures, demand-led growth and other corporate items including capital financing costs. The below table sets out the impact of these expenditure movements across the Cabinet Portfolios within the remit of this Select Committee for 2024/25.

Table 4: Service Expenditure Budget Proposals

	2023/24	Inflation	Demand-led Growth	Corporate Items	Savings Proposals	2024/25
	£'000	£'000	£'000	£'000	£'000	£'000
Health & Social Care	114,084	7,763	5,511	0	(1,731)	125,627
Services within the remit of other committees	149,816	8,617	4,943	6,073	(12,271)	157,178
Corporate Budgets & Cross-Cutting Initiatives	(622)	279	0	0	(1,750)	(2,093)
Total Service Expenditure	263,278	16,659	10,454	6,073	(15,752)	280,712

33. **Inflation:** Cost pressures of £7,763k are projected against 2023/24 expenditure going into 2024/25, with material uplifts in relation to workforce budgets, care placements, contracted expenditure and energy costs. In line with wider MTFE modelling, inflation projections are predicated on CPI being 7% during 2023, 3% in 2024 and 2% from 2025 onwards, with a forecast one-year time lag on these indices impacting on Council expenditure. For a second successive year, the exceptional inflationary environment within the national, and global, economy is the largest driving force behind the Council's saving requirement in the short-term, with 2023/24 pay award being greater than the Council's assumptions at the time of setting the 2023/24 budget, leading to the 2024/25 budget proposals including an element of funding for the 2023/24 pay award above the budgeted level which is being funded from Earmarked Reserves in-year.

34. Demand-Led Growth: items within the remit of this Select Committee account for £5,511k of the £23,950k increase across the Council over the life of the budget strategy to 2028/29, with a breakdown of these items presented below.
35. Underlying demand for the Adult Social Care Placements is projected to continue to grow over the budget strategy period, which continues to have an ongoing COVID-19 legacy issue, with an element of the 2024/25 increase being required to fund a material increase in demand during 2023/24, before returning to pre-pandemic population increases. This position is therefore driving a demographic increase of £3,216k for 2024/25 before returning to a 2% per annum increase in client numbers, adding £6,416k from 2025/26 to 2028/29. Included in the proposed Savings Programme later in this report, are three savings initiatives aimed at reducing spend on Adult Social Care Placements by £2,304k by 2028/29, with the Demand-Led Growth bid representing the increase required before these initiatives are factored in to reduce the overall spend in this area.
36. With Public Health continuing to be a ringfenced fund, the increase in service expenditure relates to the forecast increase in the Council's Public Health Grant allocations based on the 2021 Spending Review which set a multi-year settlement. With the Council required to spend any increase in Government funding on Public Health, this increase ensures the Council meets its statutory obligations and re-invests the increased funding into Public Health services, the remaining balance of the increased funding is being utilised to fund inflationary uplifts reported under contracted expenditure.
37. As a result of increasing numbers of children being supported by an Education, Health and Care Plan (EHCP), demand for SEND Transport is expected to grow by £4,230k by 2028/29 to finance transport to education settings within and outside the borough.
38. Corporate Items: budget movements within the remit of this Select Committee account for £0k of the £14,073k increase across the Council over the life of the budget strategy to 2028/29, with no corporate items falling within the remit of this committee.

Savings Proposals

39. As mentioned above, £15,752k of savings proposals have been incorporated into the draft budget for 2024/25, with £1,731k falling within the remit of this Select Committee. Details of the savings programme propels within the remit of this Select Committee are discussed below.
40. Health and Social Care: Within Health and Social Care, as in previous years, the Council continues to adopt a strong Early Intervention approach to deliver better outcomes for residents and contain placement costs despite continuing to experience the impact of demographic growth and inflationary pressures. The Service is continuously looking to innovate and develop current ways of working and service provision to help manage these pressures. This is evident in the savings within this area that are linked to investment in digital solutions; investment in new Care Diagnostic Equipment is expected to better identify appropriate levels of support and reduce care costs by £150k in 2024/25 and a further £150k

in 2025/26. Furthermore, as part of a wider Digital Front Door project, the automating of initial contact with prospective service users will enable effective triage to third sector providers or Care Act assessments which is expected to yield staffing savings of £150k in 2025/26. Finally, a review of the Telecare operating model and charging policy is expected to produce savings of £54k in 24/25 and a further £100k in each of the following 5 years.

Capital Proposals

41. Capital investment of £217,772k over the period 2024/25 to 2028/29 has been incorporated into the wider General Fund budget strategy set out within this report, with £88,800k investment in major projects, primarily delivering new or expanded infrastructure, and £128,972k investment in recurrent programme of works, ensuring that existing infrastructure is maintained and improved. An overview of these investment plans including changes from the programme approved by Council in February 2023 is detailed below, with further detail available in Appendix A8 that accompanied the Consultation Budget Report presented at December Cabinet.

Table 5: General Fund Capital Programme by Cabinet Portfolio

	Major Projects £'000	Programme of Works £'000	Total £'000
Total Capital Programme	88,800	128,972	217,772
<u>Of which, Service Expenditure in the remit of this committee:</u>			
Health & Social Care	5,500	14,250	19,750
Services within the remit of other committees	83,300	114,722	198,022
Total	88,800	128,972	217,772

42. Further to the overview presented above, the below section sets out the Capital Proposals within the remit of this Select Committee.
43. **Health and Social Care** – the budget of £22,600 includes the purchase of a care home to be run by the Council, investing £5,500k which will support an ongoing revenue saving for the service of £550k per annum from 2025/26, with the remaining £14,250k is for continuing investment in Social Care equipment for service users.

BACKGROUND PAPERS

THE COUNCIL'S BUDGET: MEDIUM TERM FINANCIAL FOECAST 2024/25 - 2028/29, presented to 14 December 2023 Cabinet Meeting